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India

Grain and Feed

GOI Slashes Grain Prices to Reduce Stocks

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Approved by:

Weyland Beeghly

U.S. Embassy

Prepared by:

A. Govindan

Report Highlights:

The GOI has slashed prices of wheat and rice by 26 percent to its Above-Poverty-Line clientele in an effort to reduce stocks of 60.4 million tons.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

Burdened with mammoth stocks, the GOI has slashed the sales price of wheat and rice supplied through the Public Distribution System to the above poverty line (APL) clientele. The revised prices are: rs. 6,100 (\$130)/metric ton for wheat and rs. 8,300 (\$177)/metric ton for rice, about 26 percent lower than the earlier prices of rs. 8,300/mt (wheat) and rs. 11,300 (rice). The reduced prices will continue until March 31, 2002 "or until stocks are lowered to a manageable level". No change was announced for the below poverty line (BPL) segment (rs. 4,150/ton for wheat and rs.5,650/ton for rice). Their monthly quota, however, was raised from 20 kg to 25 kg per family. Sales price of wheat to flour millers under the open market sales program remains unchanged, and ranges from rs. 6,500 (\$138)/ton in North India to rs. 7,200 (\$153)/ton in the South.

Following the sharp rise in the price of wheat to the APL segment last April, offtake of wheat and rice from government stocks plummeted. Wheat offtake (excluding exports) declined by 43 percent to 6 million tons and rice offtake by 20 percent to 10.2 million tons (Apr/Mar 2000/01). Combined with increased procurements, GOI grain stocks swelled to a record 60.4 million tons on June 1 (37.5 million tons wheat, 22.9 million tons rice), against a desired stock level of 24.3 million tons (14.3 million tons of wheat and 10.0 million tons of rice). Efforts to reduce stocks through subsidized exports have met with only limited success as only 2.5 million tons could be exported during 2000/01 (Jul/Jun). Quality issues and competitive world prices for wheat and corn have curtailed Indian wheat exports in recent months.

The downward revision in the sales prices of wheat and rice should stimulate local consumption, which has slowed in recent years. There also has been increasing public criticism of the GOI's pricing which offers grain at more attractive prices to foreign buyers than to Indian consumers. The government's export prices for wheat (rs.4,300/ton) and rice (rs. 5,650/ton) continue to be lower than the revised domestic sale prices for its APL clientele, although somewhat higher than the prices applicable to the BPL segment. The flour millers, who had been getting government wheat at prices lower than those offered to the APL, will be unhappy with this revision. Unless both of these prices are the same, there is a likelihood that some of the lower priced PDS wheat will leak into the open market. The government has, however, decided to allocate 2 million tons of wheat to flour millers at a subsidized price (to be determined) subject to their commitment to export wheat products.